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ACTION AF-00

INFO	LOG-00	NP-00	AID-00	CEA-01	CIAE-00	CTME-00	INL-00
	DODE-00	DOEE-00	ITCE-00	DOTE-00	DS-00	EB-00	EXME-00
	EUR-00	E-00	FAAE-00	UTED-00	VC-00	FRB-00	H-00
	TEDE-00	INR-00	IO-00	LAB-01	VCE-00	M-00	AC-00
	NEA-00	NRC-00	NSAE-00	NSCE-00	OES-00	OIC-00	OMB-00
	NIMA-00	EPAU-00	MCC-00	GIWI-00	ACE-00	SP-00	SSO-00
	SS-00	STR-00	TRSE-00	FMP-00	BBG-00	EPAE-00	IIP-00
	SCRS-00	DSCC-00	PRM-00	DRL-00	G-00	NFAT-00	SAS-00
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FM AMEMBASSY NDJAMENA
TO SECSTATE WASHDC 2292
INFO US DOC WASHDC
AMEMBASSY YAOUNDE
AMEMBASSY BAMAKO
AMEMBASSY DAKAR
AMEMBASSY ABUJA
AMEMBASSY NIAMEY

UNCLAS NDJAMENA 001395

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DEPT FOR AF, EB, ENERGY FOR CAROLYN GAY AND GEORGE PEARSON,
TREASURY FOR OTA, LONDON AND PARIS FOR AFRICA WATCHERS, USTR
FOR WILLIAM JACKSON

E.O. 12958: N/A

TAGS: [ECON](#) [EFIN](#) [ENRG](#) [PGOV](#) [CD](#)

SUBJECT: CHAD: IMF-WORLD BANK MISSION PRESENTS POSITIVE
SHORT-TERM OUTLOOK

REF: NDJAMENA 1228

[1](#)1. SUMMARY: The latest IMF-World Bank Mission has presented a fairly positive assessment of Chad's economic prospects, but has also noted the need for progress in non-oil sectors, particularly cotton, agriculture and livestock, and telecommunications. While the country received a passing grade during this review, the mission's conclusions have also raised questions concerning the country's ability to meet its short-term objectives before December, revisions of the current Revenue Management Laws (which some members of the international community appear to support), and the World Bank's Plan for the Modernization of the National Budget.

IMF-WORLD BANK GIVES A PASS, FOR THE MOMENT

[1](#)2. On August 31st, a joint IMF-World Bank mission assigned to assess Chad's Poverty Reduction and Growth Facility (PRGF) progress briefed members of the international community (which included representatives from the GOC, European Commission, French Embassy, and UNDP) on their conclusions. The head of the Mission, Pierre Van Den Boogaerde, announced that the Chadian government would receive a passing grade on this assessment of the program, and had agreed to take specific short-term measures to limit government spending, which included the freezing of certain official travel and salary increases of government officials. Van Den Boogaerde noted that the freeze would allow the GOC to balance the budget for the current fiscal year, even though the problem of perpetual salary arrears and outstanding government expenditures from the past year would have to be carried over to the following fiscal year.

[1](#)3. At the same time, according to the Van Den Boogaerde, financial assistance from the European Commission and the African Development Bank, to be released before the end of 2005, should ease this year's budgetary shortfalls. The PRGF will be re-evaluated in December, as well as in April, when the country's HIPC-completion point progress will also be determined. Van Den Boogaerde also noted that the implementation of the recently-approved Budget Modernization Plan (PAMFIP) would assist in reforming the budgetary process, and said the IMF would explore what assistance it could offer in accelerating the process. The World Bank Chad-Cameroon Pipeline Representative, Marie-Francoise Nelly, added that the Bank would convene a meeting in N'Djamena in early-October of the international donors to discuss external financial support for PAMFIP (see reftel).

FOCUS ON NON-OIL SECTORS

[1](#)4. Citing the revenue shortfall in the oil sector from lower-than-expected production, Van Den Boogaerde emphasized

the need for Chad to focus its efforts on reforming the non-oil sector. He pointed to the GOC's agreement with the Bank and Fund to move forward with the privatization of the Cotton parastatal CotonTchad. This included implementing the World Bank's proposed road map (which was approved by the Government immediately before the arrival of the joint-mission) that charted out the reform of the company's internal organization, creation of a multi-year business plan, and execution of a public tender in the international markets. Van Den Boogaerde also highlighted good harvests and increased livestock production expected for 2005.

15. Van Den Boogaerde said that the Government had agreed to commence the privatization of its telecommunication and electricity sector. He expressed optimism in the country's ability to capitalize on the expansion of the current fiber optic network in Doba, as well as begin the construction of a topping plant to produce readily available diesel fuel. He also noted the technical assistance that the European Commission had provided Chad's agro-economy (particularly with respect to its livestock sector), and the export benefits that the United States provided through AGOA.

REVISION OF THE OIL LAW

16. Following Van Den Boogaerde's presentation, World Bank Representative Noel Tshiani raised the question of revising the current Revenue Management Laws, citing the existing critique that the existing laws restricted the ability of the Chadian government to fund changing social needs. Representatives from the African Development Bank, the French Embassy, and the UNDP all commented on whether the existing priority sectors should be revised. The UNDP Representative specifically noted that additional priorities included enhancing the security of the state, particularly the judiciary system. The EC said that the greater question was the ability of the State to responsibly manage the current oil revenues, and the kind of support the international community could provide to augment the GOC's budgetary capacity. Nevertheless, they noted that the Chadian government had the right to change their own laws.

GOC REACTIONS TO THE MISSION, BUDGET MODERNIZATION

17. On September 5, E/C Officer met with Ibrahim Mollimi, Secretary General for the Ministry of Finance, and Issene

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Mouhoro, Deputy Coordinator for the Cellule Economique (the President's Economic Advisory body for Structural Programs) to assess the GOC reaction to the IMF-World Bank Mission. Both officials noted that the Government was very relieved with the positive review it received regarding its PRGF, as many officials had expressed concern following the revenue shortfall and spending deficit in FY 2005. They were both confident that the government would be able to adhere to the spending freezes demanded by the IMF, and move forward with the privatization of a number of sectors.

18. Both officials were also highly supportive of PAMFIP's potential positive impact, but stated that implementation of this mechanism needed to start soon, and required international (and particularly U.S.) assistance. Mouroho explained that while the Government maintained the ability to manage part of the budgetary process (the receipt of budgetary requests and the programming of resources), it lacked the capacity to efficiently disperse the cash payments to complete the spending transaction. Mouroho argued that developing an Integrated Financial Management System that connected and modernized all phases of the budgetary process would solve the existing ineffectiveness of the current system.

19. When E/C Officer noted the concerns that previous Treasury teams had raised with the implementation of an integrated financial system, Mollimi noted that the Government examined the past failure of the system in Burkina Faso, and said the Government had already sent a technical team to Burkina Faso to examine the system there, and would use the lessons from their experiences to ensure that their integrated financial management system would be fully functional in Chad. (NOTE: Past Treasury teams have noted that a Integrated Financial Management System could be counter-productive for Chad's budgetary reform needs, as the country lacks the technical capacity to absorb such a technologically sophisticated system. END NOTE)

COMMENT

10. While the IMF's decision to continue the PRGF in Chad is good news, the next several months will be crucial for the future of the program. The country has to demonstrate that it can make significant progress in the privatization of several non-oil sectors if it wishes to see continued economic support from the IFIs. The IMF's visit also demonstrates that the international community will have to address the future of the current Revenue Management Laws and reform of the Chadian budgetary system. Clearly, there are specific problems associated with the constraints of the laws governing the spending of oil revenues, as well as the system in place to disperse the oil revenues. The question is how to reform the current arrangement to assure the transparency of the current laws, and offer the most practical structure for the Chadian budgetary system (which

is not necessarily evident from the proposed reform plan). We will need to develop a formal response on both initiatives in the coming months if we wish to influence the direction of future discussions on these matters.

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